

**SMALL BUSINESS  
TOOL KIT**



**FORRESTALL, GALEANO & LI, CPA, LLC**

CERTIFIED PUBLIC ACCOUNTANTS  
*A Partnership Of Professional Corporations*

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Congratulations on owning your own business! Based on many years of answering questions for business owners, our Firm has assembled this booklet as a starting point for the setup of your business and as a resource for existing businesses. This booklet is not intended to cover all business issues or be the final answer to your questions; it is intended to be a list of items that may need to be addressed by your company.

There likely are, or will be, special circumstances regarding your business that will require specific attention. Our CPA firm staff will be glad to assist you in providing more specific answers to your individual needs as they arise.

Please feel free to contact us at any time for assistance.

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## I. Structure of Your Business

### Choosing you entity type

Choosing a legal and tax structure of your business is based on several factors to include in your plans for your business for the current year and future years. Please review the following chart for a comparative overview of structure options for your business. I recommend that you contact our Firm to review your decision for a business structure as soon as possible to ensure that your structure is going to provide you with the best legal protection and tax savings possible for your business.

	<b>Sole Proprietor</b>	<b>Partnership</b>	<b>Corporation</b>	<b>S Corporation</b>	<b>Ltd. Liability Co.</b>
<b>IRS Pub.</b>	<b>334</b>	<b>541</b>	<b>542</b>	<b>589</b>	<b>None</b>
<b>IRS Form</b>	<b>Sch. C, 1040</b>	<b>1065</b>	<b>1120</b>	<b>1120S</b>	<b>1065</b>
<b>Entity Description</b>	One individual who carries on an unincorporated trade or business. (A husband and wife who own a business jointly and contribute to the business as owners generally file Form 1065 as a partnership; some states permit a Joint Schedule C or F, however.)	An association of two or more individuals who carry on a trade or enter into a business endeavor. Each partner contributes cash, property, and/or services. A joint undertaking merely to share expenses or ownership of property does not necessarily constitute a partnership. A partnership has its own legal status.	A business entity that carries its own legal status, separate and distinct, from its owners. <b>CORPORATE CHARACTERISTIC S:</b> Continuity of life; centralized management; limited liability of the owners; free transferability of ownership interest (sale of stock).	A corporation can elect to be taxed as an S Corporation by filing Form 2553. Only domestic corporations with one class of stock are eligible. Limited to 75 shareholders, and may not have another corporation as a shareholder (other than a 100% S-Corp parent.) Other restrictions apply.	A hybrid entity, generally formed under state law, that combines the pass-through attributes of a partnership with the limited liability of a corporation. Unincorporated businesses (including LLCs) can elect on IRS Form 8832 to be taxed as a partnership (Form 1065) or taxable as a corporation (Form 1120).
<b>Organization &amp; Administration</b>	Easiest business to organize. Allows complete intermingling of business and personal funds. Business return is filed along with the owner's individual income tax return.	Easy to organize. A written partnership agreement is recommended, but not required. The partnership agreement determines how income and losses are allocated to the partners. If a partnership agreement does not exist, partnership items pass through	Difficult and expensive to organize. Must hold periodic board meetings and keep minutes. Must comply with federal and state regulations.	Set up as a regular corporation. Must make election (Form 2553) to be treated as an S Corporation (must meet eligibility requirements). Certain events will cause automatic termination of S status. Failure of any one of 6 eligibility requirements terminates election. S Corps with C Corp E&P limited to 25%	An existing partnership can generally register for LLC status in the state in which it conducts business. For Federal tax purposes – treated as a partnership unless election filed to be taxable as a corporation. Single member LLCs can be disregarded as a separate entity.

		based on the partner's ownership interest.		investment income.	
<b>Owner Control &amp; Flexibility</b>	Owner is free to make all business decisions.	Control of the business operations is divided among the partners.	Shareholders have control over the corporation to the extent that they own voting stock.	Shareholders have control over the corporation to the extent that they own voting stock.	Control is divided among members.
<b>Losses</b>	Business losses can offset other income such as interest, capital gains, or a spouse's wages if filing a joint return. Subject to "Hobby Loss" rules under IRC § 183.	Losses flow through to partners. Recognition of loss by a partner is limited by the partner's basis, at-risk rules, and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.	Capital losses are allowed only to the extent of capital gains. Net operating loss of a corporation may be carried back or carried over against corporate income, but is not directly passed through to shareholders.	Losses flow through to shareholders. Recognition of loss is limited by the shareholder's basis, at-risk rules, and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.	Losses flow through to members. Recognition of loss by members is limited by the member's basis, at-risk rules, and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.
<b>Passive Loss Limitations</b>	Yes.	Yes, at partner level.	No, unless a PSC or closely-held corporation.	Yes, at shareholder level.	Yes, at member level; current law unclear for Limited members.
<b>Special Allocations Of Income &amp; Expenses Among Owners</b>	Not Applicable	Yes, special allocations permitted.	Not permitted.	Not Permitted.	Yes, special allocations permitted.
<b>Personal Liability</b>	Sole Proprietor is liable for all business debts and actions.	A general partner is personally liable for all partnership debt. A limited partner's liability is usually limited to the partner's investment in the partnership.	Shareholders are not liable for debts incurred by the corporation. Liability is generally limited to the amount invested. Professionals are responsible for their own actions.	Shareholders have limited liability, just as with a C Corporation. Again, professionals are liable for their own actions.	The degree of liability protection for LLC members varies from state to state. Generally, not personally liable (except professionals' own actions).
<b>Wages &amp; SE Tax</b>	Owner is subject to self-employment tax of 15.3% of net earnings. Self-employment tax is computed on Schedule SE and is reported as "Other Taxes" on Form 1040. One-half of SE tax is deductible "above the line."	A general partner's share of business income (including guaranteed payments) is subject to self-employment tax. A limited partner's share of business income is not subject to self-employment tax unless the partner performs services for the partnership.	Shareholders who perform services for a corporation, including officers, are treated as employees. Wages of corporate employees are subject to payroll tax and withholding. Wages paid to employee-shareholders must be "reasonable."	An employee-shareholder of an S Corporation receives wages for services rendered. Wages paid to employee-shareholder must be "reasonable." Additional profits are passed through to the shareholder as distributions not subject to SE tax. Double taxation of profits is generally avoided.	Earnings are generally subject to self-employment tax unless members establish they do not participate in management or operation.

<b>Advantages</b>	Minimum legal restrictions. Easy to discontinue.	A partnership can be a good way to combine skill and/or financial abilities of several different people.	Limited Liability. Perpetual life. Ability to raise capital through issuance of stock.	Limited liability. Avoids double taxation of profits. Profits passed through are not subject to SE tax as in a partnership.	Avoids certain S Corporation restrictions. Avoids double taxation of profits. Easy to organize.
<b>Disadvantages</b>	Unlimited liability. May not bring in new owners or outside capital contributions. Income tax cannot be deferred by retaining profits.	A partnership is often easier to get into than out of. General partners are liable for actions of other partners. Usually partners are subject to SE tax on profits.	Double taxation of profits. Corporate charter restricts types of business activities. Subject to various state and federal controls.	Shareholders pay tax on earnings even if undistributed. Less flexibility in choosing a tax year. Contribution limits to a qualified retirement plan are based on employee-shareholder's wages, not overall profits such as a sole proprietor.	Earnings are generally subject to self-employment tax. Inconsistent treatment state to state. Generally has at least two owners.

## S Corporations

An S Corporation is a corporation that has filed an election with the IRS to become a small business corporation by filing Form 2553. This is a one-time election that should be done at the start of your business operations and must be filed within 75 days from operations beginning. If you do not file within 75 days, late relief may be available to you under Rev Proc 2003-43. You can elect to change to an S Corporation after this period but you should consult with our Firm to determine how this will affect your taxable income and determine if it is worthwhile.

S Corporations allow the business owner to be compensated as an employee in the form of a W-2 for a reasonable wage. Profits from the company will be exempt from social security and medicare taxes, resulting in a tax savings of approximately 8% of profits in taxes. There are several limitations on deductions for benefits and expenses paid to owners of S Corporations. Some of these limitations can be overcome with planning assistance from our Firm. Profits from the company are divided amongst the owners by the percentage of the company that they own. You will pay income tax on income that the S Corp generates each year when you make the income, not when you take it. It is possible to have to pay tax on income you have not received yet.

If someone sues your company and your company is incorporated as an S or a C, normally the person or company suing you will only be able to go after your assets in the business and not be able to get your house or personal assets.

## C Corporations

All corporations are C Corporations unless they make an election to become an S Corporation. C Corporations exist for income tax purposes as a living entity that pays taxes on profits and does not benefit the owners of the company if the company loses

money during a year. There are several reasons why a C Corporation would be preferred over an S corporation that can be discussed in detail with one of Forrestall, Galeano & Li CPA, L.L.C. The only way to get profits or money out of a C Corporation is to pay compensation to owners as W-2 wages or as dividends (which are taxable to the owner and NOT deductible to the company) but are typically taxed at lower rates. If the company makes a profit and pay tax on the profit, the owner will need to take compensation as wages (subject to individual taxes as a W-2) and pay tax again on the same profits. The possibility of double taxation is why most small business elect to be taxed as an S Corporation. Limitations of owner benefits and expenses in an S corporation do not apply to a C corporation.

### **Limited Liability Companies (LLC)**

An LLC is formed for legal purposes to reduce the level of liability that you could have when being sued to the assets of the company further limited by your investment in the company, if there are multiple owners. The IRS does not recognize LLC's as a tax entity; therefore, you must further elect to be taxed as a partnership, C Corporation, or an S Corporation, depending on the facts.

### **Partnerships**

A partnership is taxed the same as a sole proprietorship with multiple owners. A one-partner partnership is a sole proprietorship. Partnerships are beneficial when ownership percentages will not equal the same percentage of the share in profits. A partnership can choose to change the allocation of profits to partners each year without changing the ownership percentages.

**Every company that has multiple owners or partners** should take time to go over the three D's together. The Three D's are what the Company and the remaining owners will do if any one of the Three D's happens. The Three D's are Divorce, Disability and Death. I suggest you cover these events, write your agreement of response, and have all owners sign it. I also suggest that you add this statement to your corporate minutes book.

I also suggest that when having the Three D conversation, you define what everyone agrees the definition of compensation is, what is included and what is not. It is better to discuss this before you have made money in the business.

A partnership is similar to a marriage, not hard to get into but can be very expensive to get out of and hurt everyone, even the business. The better job everyone can do with a 'prenuptial agreement', the better chance you can remain friends and the business survive if something does not go as you planned or hoped for.

### **You can additionally go to these IRS publications:**

- [Publication 541](#), *Partnerships*
- [Publication 542](#), *Corporations*
- [Publication 3402](#) (PDF), *Tax Issues for LLCs*

- Publication 334, Tax Guide for Small Business
  - *Entities: Sole Proprietor, Partnership, Limited Liability Company/Partnership (LLC/LLP). Corporation, Subchapter S Corporation*

## **How to Set Up a Corporation of Partnership or Limited Liability Corporation**

Any of these entities must be registered with and an application filed with the Secretary of State. You do not have to consult with an Attorney to form your entity; however, it is strongly suggested. For our local area we have found that the average range of cost to form a corporation is from \$700 to \$1,500. Forrestall, Galeano & Li, CPA, L.L.C. can help you facilitate this process. Our fees are shown in the range above, with the Attorney's fees.

If you do wish to form your entity yourself you can obtain the necessary details on the Secretary of State's web site, [www.sos.ga.us.gov](http://www.sos.ga.us.gov). Your cost out of pocket should be between \$300 to \$500 if you set up your entity yourself.

## **Should You Consider Setting Up Your Company as a Delaware, Nevada or Florida Corporation to Escape State Taxes?**

There are currently seven states in the United States that do not have Individual Income taxes. Unfortunately, Georgia is not one of these States. Please see the section later in this guide titled 'Nexus', which will explain why you will not escape Georgia taxes and most often end up paying more in fees to another State. Sometimes there are legitimate legal benefits of having a Corporation set up in another State. Some of these reasons can be explained to you on the individual Secretary of State web site for each State you are considering or consulting with an attorney. You will pay taxes on income you earn in the state where you earn your income. Registration in Nevada (or other states) but have your physical location in Georgia and sales in Georgia will result in your income being taxable in Georgia in most all cases.

## **What is a Hobby according to the IRS and why should you care?**

Any Business may be a hobby to you because you enjoy doing it, but the IRS definition of a business activity being considered a Hobby can limit the tax benefits associated with the activity. The following table is an excerpt from the IRS pub 15A.

## **How do you distinguish between a business and a hobby?**

Since hobby expenses are deductible only to the extent of hobby income, it is important to distinguish hobby expenses from expenses incurred in an activity engaged in for profit. In making this distinction, all facts and circumstances with respect to the activity are taken into account and no one factor is determinative. Among the factors which should normally be taken into account are the following:

- Whether you carry on the activity in a business-like manner
- Whether the time and effort you put into the activity indicate you intend to make it profitable
- Whether you depend on income from the activity for your livelihood
- Whether your losses are due to circumstances beyond your control (or are normal in the startup phase of your type of business)
- Whether you change your methods of operation in an attempt to improve profitability
- Whether you, or your advisors, have the knowledge needed to carry on the activity as a successful business
- Whether you were successful in making a profit in similar activities in the past
- Whether the activity makes a profit in some years, and how much profit it makes
- Whether you can expect to make a future profit from the appreciation of the assets used in the activity
- Additional information on this topic is available in Section 1.183.2(b) of the Federal tax regulations

***References:***

- Treas. Reg. 1.183-2(b)

**When a business or activity is considered 'Passive' not 'Active' and Why does it Matter.**

An activity that you do not materially participate in is considered a passive activity. Rental activity is generally a good example of a passive activity. It usually does not take much time or action to rent or collect rent on a business.

If an activity is passive, then any income is not subject to Social Security and Medicare taxes since you did not 'earn' the wages from you working. If the activity generates a loss, the loss will likely be limited to how much you can deduct in any one year, with the remainder being carried over to the future for deductions.

**Choosing an Accounting Period**

The “tax year” is determined on the type of business you have in figuring taxable income. A “tax year” is an annual accounting period for keeping records and reporting income and expenses.

A “calendar year” runs from January 1 through December 31. One of the advantages of a calendar year to small business owners is that payers of interest, dividends, and various other kinds of income send their reports to you on a calendar year basis; so, it is easier to determine your personal taxable income. The IRS prefers that

most businesses use a calendar year for their tax year. S Corporations and Sole Proprietors use calendar year accounting periods.

Some businesses have “seasons” that do not follow the traditional calendar. If your business is seasonal, you may use a 12-month period that begins with a month other than January 1 and ends 12 months thereafter. Accounting periods that do not begin on January 1 and end on December 31, are referred to as “fiscal.”

Whether you choose a calendar year or a fiscal year, you must use this period on the first tax return you file for your business. After the initial year and initial tax return filing, you must request and obtain IRS approval to change your year-end accounting period, and pay a user fee of a few thousand dollars to the IRS for the application. This is done by filing IRS Form 1128. Additional fees are required when requesting this change and additional tax calculations are also required for the tax return to complete a period change. You have to have a good reason, in the eyes of the IRS, of why you need an accounting period other than a calendar year if you are changing from a December year end.

### **Using a Fictitious Name (D/B/A – Doing Business As)**

You can operate your business in any name of your choosing. Should you choose to use a name other than the legal name of your corporation, or if you are a sole proprietor, you most likely will need to use a d/b/a.

To use a d/b/a, you need to go to your county court house and register your company doing business under a fictitious name. This is a requirement and is helpful if someone is trying to locate your business through legal records.

### **Board of Directors (if a Corporation)**

There is no requirement to have a board of directors in your corporation. If your business is going to be operated by the owners of your corporation, it is common to elect, not to establish, a board of directors when the corporation is established. This election is at the time the corporation is formed.

### **What is the difference between Shareholders, Directors, and Officers of a corporation?**

Shareholders own the Corporation. Shareholders elect Directors who make corporate decisions. Directors appoint Officers (President, Vice President, Treasurer, and Secretary) who take care of day-to-day business, and who carry out corporate decisions made by the Board of Directors. You are only required to have the offices of a President and a Secretary, the Vice President and Treasurer are optional. The same person can hold more than one position. At the end of the day, the Director can fire the President of a Company, and the Director can be fired by the shareholders or owners.

## **How Many Officers Do I Need?**

You are required to have a President and a Secretary; however, one person can fill both offices. The offices of Vice President and Treasurer are optional; however, the Secretary of State will request the name of the Treasurer in the Annual Registration to be filed each year. For that reason, we suggest that you also name a Treasurer. One person can hold all three offices. The same person should **not** hold the offices of President and Vice President, as the primary job of the Vice President is to fill in for the President when the President is unable to perform his/her duties.

## **Opening a Checking Account**

If you are a sole proprietor, you **should** (close to being a must) open a separate business checking account for your business at a local bank. Only business activity should go through this account. If you loan your business money, be sure to keep these deposits separate from sales deposits. This is important to ensure that the IRS will not mistake these funds as income. Unfortunately, poor records sometimes results in guilt until proven innocent (or income until proven it is not with the IRS).

If you are a corporation or a partnership you need to open a business checking account. The bank that you choose to open your account with will require a Federal Employers Identification Number (EIN) for your business. This number can be obtained by filling out IRS Form SS-4 and faxing this to the IRS. I suggest that you go online to [www.irs.gov](http://www.irs.gov) and apply for the number. You can receive it immediately. You will receive a letter informing you of the number that has been assigned to your business. This number is used just like your social security number but is specific for your business. You will also need certified information from the Secretary of State that you are a legal entity in the State and probably your corporate seal.

## **Business Plans**

We strongly recommended that you prepare a Business Plan. A Business Plan describes the ownership of the entity, the nature and purpose of the business, what services will be sold, what the market is for your product or services, and a potential cash flow projection for the first one or two years of operations. If you wish to borrow money from a bank or the SBA, they will require this information.

There are several free resources to assist you in preparing your business plan. You can contact the Fanning Institute at the University of Georgia or search online for other products. There is no right or wrong answer to what is in your business plan. The plan is intended to provide you direction and formulate a plan of action for how your business will operate and thrive.

I suggest that you write as much as you can yourself; it doesn't have to be in a professional format. If you need help getting started, our firm can help. Much of this information is already in your head and it is only a matter of transferring the information to paper.

## II. Financing/Obtaining Loans

### Banks and the SBA

The Small Business Association (SBA) is a government-backed organization that helps small businesses obtain financing and other business services. Our local SBA representative office is the Georgia Mountain Regional Economic Development Center (EDC) in Gainesville. The SBA offers two major types of loans in their 504 and 7A loans. A 504 loan is for large purchases of fixed assets (land, building and large equipment) and the 7A loan is for the remaining items (inventory, small equipment, leasehold improvement, and working capital). These loans are beneficial in that they are repaid commonly over 10 years for the 7A and 15-20 years for the 504 at a fixed low interest rate.

The bank and the SBA will require a business plan, biography of owners or managers of the company, personal financial statements of the owners, and the most current three-year tax returns for the company and the owners. Banks and the SBA generally require collateral of at least 25% of the loan amount, and wish to see that the company is profitable, or has working capital to cover several months of operating expenses and other costs.

The economy and the industry for your business will also be part of the decision of a bank to lend you money. If a bank is not interested in lending you funds, it may be due to several factors that can change over time or may not be a factor with other banks. This is why Forrestall, Galeano & Li, CPA, L.L.C. has established strong relationships with several banks and the SBA to help you find a source to borrow funds for your business needs.

Leasing business equipment (computers and other small equipment) is also an option for many businesses. There are several pros and cons for tax purposes to leasing that should be reviewed prior to entering into a business lease. We often have contacts for specific industries who will lease equipment to business owners, often when a bank will not loan money to you.

All financial institutions will likely require a **personal guarantee from all owners** of a company for any loan. This provides the bank assurance that if your company goes bankrupt, then they will have means to collect their loan from you personally. This also provides assurance to the bank that you are committed to your business and that you have enough confidence in your business to pledge your personal assets. If you don't have enough confidence in the success of your business to pledge your assets, then why should the bank?

### III. Employees

#### Employees vs. Contractors

When you hire an expert for special skills, laborers, or professional guidance, they are either independent contractors or employees. Understanding the difference is crucial when it comes to recordkeeping and tax reporting. To determine if a worker is an independent contractor or an employee, **consider behavioral control, financial control, and relationship of the parties.**

Generally, anyone who performs services for you is your employee, if you have the right to control **what will be done** and **how it will be done.**

Who directs or controls the business aspects of work? Contractors, who are in business for themselves, usually offer their services to the public and may have a significant investment in the facilities used in performing services. They are more likely to have unreimbursed expenses than employees and can realize a profit or incur a loss.

How do you and the worker perceive your relationship? A permanent work relationship and worker benefits generally indicate an employer-employee relationship. However, the substance of the relationship determines whether your workers are employees. It is important to note that contracts and job titles do not determine a worker's status. These are some Behavior Control examples that determine employee status:

- Instructions an employee is generally told:
  - When, where and how to work
  - What tools and equipment to use
  - What workers to hire or to assist in the work
  - Where to purchase supplies and services
  - What work must be performed by a specified individual
  - What order or sequence to follow
- Training an employee-maybe trained to perform services in a particular manner.

Financial Control examples:

- The extent to which the worker has unreimbursed expenses
- The extent of the worker's investment
- The extent to which the worker makes services available to the market (others)
- How the business pays the worker
- The extent to which the work can **realize a profit or loss**

Type of Relationship:

- Written contracts describing the relationship the parties intend to create (facts will override what is in a contract)
- Whether the worker is provided with employee-type benefits
- The permanency of the relationship
- How integral the services are to the principal activity

Certain categories of workers are covered by specific laws that establish that they are employees and nonemployees. Special rules apply to them. See IRS Publication 15-A for more detail or contact our CPA firm.

## **Forms and Tax Filings**

The IRS has almost every Federal form you could need in your business listed on their web-site.

You must withhold income tax on employee's wages, withhold social security and medicare (FICA) taxes and match the FICA as the employer, pay federal and state unemployment tax, and workman's compensation insurance on employees. (See Publication 15 or Publication Circular E).

Contractors that you pay \$600 or more during the calendar year for services provided your business must receive a 1099-MISC from you by January 31. If the contractor is incorporated, you do not have to file a 1099 for them. To determine if they are incorporated, check the Secretary of State's web site for a corporate search by the name of the company.

All employees must fill out a W4 and I9 with the company. The name and SSN listed on each W-2 must match the name and SSN on the employee's social security card. SSA's free employee verification service identifies inaccurate name/SSN combinations so that they can be corrected prior to filing W-2's. Contact the service at 800-772-6270. Also have your EIN available.

If you employ staff and pay them by the hour, then you or staff may be subject to overtime compensation. Hourly and salaried staff who do not act in a management capacity (acts more like an employee), are generally subject to overtime when they work more than 40 hours in a one-week period. It is not computed by the day, nor by the pay period; it is computed by the week.

## **Health Insurance**

The Gwinnett County Chamber of Commerce offers open enrollment for company group health insurance coverage. Additionally, you can contact local independent insurance agents to obtain group or individual policies. Health insurance premiums are deductible to the company. The way the benefits are offered to employees and deductible to the company can be modified. Contact our CPA firm for more details to receive the largest tax savings for these benefits.

## **COBRA and Family Medical Leave Act**

Cobra was enacted in 1986 and requires most group health insurance plans to provide a temporary continuation of group coverage that otherwise might be terminated. Cobra generally applies to all private-sector group health plans maintained by employers that have at least 20 employees on more than 50 percent of its typical business days in the previous calendar year. Both full-time and part-time employees are counted to determine if Cobra applies.

Your company may be required to offer Cobra and other Federal Labor benefits (Family Medical Leave Act and others) if you have over 20 employees (see definition above).

## **Unemployment Insurance**

Each company will pay unemployment insurance to the state and the federal government. Companies are responsible for paying these premiums quarterly based on the number of employees and the tax rate assigned to the business. This rate may increase or decrease over time as your company builds a history. If an employee files for unemployment benefits you will be notified by mail that they have filed. If you wish to contest their benefits, you can do so (employees fired for cause that has been documented will not be eligible). The last three employers of your employee will be subject to increased rates from the employee receiving benefits. Employers do not directly pay unemployment benefits to the employee; benefits are paid by the state and federal government. Owners of the company are not eligible for benefits even though premiums are paid on their wages.

## **Bonuses/Commissions/ Tips**

All wages, in any form, are subject to withholding and FICA. It does not matter if you call the compensation a “bonus, commission, tips, or Christmas bonus.” Employees cannot receive a W-2 and a 1099 in the same year, unless they were hired as an employee during the year and will only get a W-2 next year and have not previously received a W-2. In 99% of the cases, it does not matter how you classify the payment to them for services, it will be taxed on a W-2.

## **IV. Business Insurance**

It is important to obtain business insurance for you company. Types of insurance that you may need include Property and Casualty, Errors and Omission (Service Company), Umbrella Coverage, Auto, Electronic Data Processing (EDP), Employment Practices Liability (EPL) and Worker’s Compensation.

I recommend that any contractor or business individual from whom you receive services that you ask them to provide you a copy of their proof of insurance. A surprisingly high number of small businesses do not have business insurance and even though the vendor may offer a warranty on their work that they perform there is no guarantee that your business is covered if they go bankrupt or out of business.

### **Worker’s Compensation Insurance**

In the state of Georgia businesses that employ three or more employees, including owners, have to maintain workman’s compensation insurance. If you do not have workman’s compensation insurance and an employee is injured on the job you and your company could be liable. Worker’s compensation insurance premiums are based on your company’s payroll and a certain amount for each \$1,000 in payroll is charged for the

premium. The premium varies from industry to industry based on the risk of employees being injured.

Expect a worker's compensation AUDIT annually to verify that the wages that you estimated for the year is on what your premiums were based. If your wages are lower than the estimate, a refund is due. If your wages are higher than the estimate, you will most likely owe additional premium.

### **Employment Practices Liability Insurance (EPL)**

I highly recommend that you obtain a quote for EPL insurance. The premium is based on the number of employees (not the amount that you pay them, like worker's comp above). This insurance covers the company in the occurrence of sexual harassment claims, discrimination claims on race, religion, age and other employment practices. The cost is generally low compared to the coverage benefits. It is my opinion that a business is more likely to be sued for actions of employees rather than negligent acts. If one of your employees harasses another employee or a customer, you may be liable, and insurance to protect you is worthwhile.

### **Retirement Plans for the Business**

Any business can establish a retirement plan for their employees and owners. A sole proprietor can establish a Self Employed Pension Plan (SEP) and contribute up to 25% of profits from the business into the plan for himself and 25% for employees each year. Incorporated businesses can establish a SIMPLE or a 401(k) plan and contribute up to a total of \$49,000 (adjusted annually) per owner or employee. Our firm can help you determine how to maximize the contribution for owners and minimize or exclude employees when possible. There are a number of rules that govern retirement plans and can cause steep penalties when companies do not properly comply. Retirement Plans are also one of the best 'after the fact' tax planning tools you can have. They allow you to wait to fund the retirement plan until you file your company's tax return. The amount can vary, depending on your goals for the year, cash flow needs, and tax savings benefits.

There are many types of plans and there is not a cookie cutter answer on which one is best. Some plans cost more than others, but have higher limits or offer more exclusion for certain employees.

## **V. Records and Accounting**

### **Debits and Credits**

An accounting method is simply a set of rules covering when and how you report your income and expenses. You choose your method of accounting when you file your first income tax return. The two most commonly used accounting methods are cash method and accrual method. Generally, you must use the same method from year to year, unless you get special permission from the IRS to change.

## **Cash Method**

This is the accounting method used by most, due to its simplicity, and it may be appropriate for your small business. Generally, if you keep an inventory, you cannot use the cash method. However, if average annual gross receipts are \$1 million or less, you may be able to use the cash method and keep an inventory. Determining your gross income with the cash method is merely a matter of adding up the cash, checks, and fair market value of property and services you receive during the year. Using this method, your income for the year includes all checks you receive, regardless of when you cash the checks or withdraw the money. You cannot avoid paying tax by not depositing checks or credits card slips.

## **Accrual Method**

This method of accounting is essentially the opposite of the cash method. Its main purpose is to match income with the expenses incurred to produce that income. If you maintain an inventory in your business, you must generally use an accrual method for purchases and sales. See the exception explained previously under cash method.

Under the accrual method, income is reported in the year you have a right to receive it, even if you received the income in a different year. An accrual method calls for you to report income for the year when you perform a service for a customer. Similarly, you generally deduct your business expenses in the year you become liable for them, regardless of when you actually paid them.

## **Over view of QuickBooks Pro – The most widely used accounting software for small businesses.**

Intuit's QuickBooks Pro is the most widely used and supported small business accounting system in today's market. Its screens are simple to understand and easy to use. You can keep track of your accounting transactions on a day-to-day basis with confidence and with the knowledge that Forrestall, Galeano & Li, CPA, L.L.C. is there for your needs. We help our clients by going to your site when needed to review accounting records, make corrections and suggestions where needed, and give you the piece of mind that you are staying accurate and up to date so that you can better manage your business. If preferred, our staff can schedule time to train you or your employees in the day to day activities.

We also recommend that you take a look into PeachTree Accounting Software. This program is comparable but does have a few subtle differences.

You should keep in mind that these software programs are the beginning, or entry level accounting software programs. For the price you pay, you will get most of what you could need. If your business requires something "bigger" and "faster" we can give you advice and help with the setup in the mid-level software market. Prices increase significantly from the entry level to the mid-level.

We do not resell any software. We offer consulting services relating to the accounting software programs and charge by the hour with a retainer in most cases. Our CPA firm offers assistance in setting up the chart of accounts, payroll, accounts payable, accounts receivable, inventory, and bank accounts for you.

In any and all software that you use for your business, we strongly recommend that you purchase a new copy for your use. Software manufacturing companies are getting much better at being able to track when someone is illegally using software.

### **Controller for Hire**

The partners of Forrestall, Galeano & Li, CPA, L.L.C. realized that CPA firms can best help their clients by providing a high level of accounting, tax and business services that are flexible for each client at the price that meets their budget. Controller for Hire was our solution. We are focused on providing as much training to your company as you desire in order to reduce your future accounting assistance needs.

Clients of the Firm request and receive accounting, tax, QuickBooks and business services at the hourly rate of the individual performing the service. The Client determines if the work is to be performed at their location or at our office, and how often the services are performed (weekly, monthly, quarterly, as needed, or annually). There is no contract; you pay for services as you receive them in a monthly invoice.

Most of our clients operate their business on QuickBooks and many have a receptionist or internal accountant prepare the daily information and records. Not all businesses need a full time real CFO, but will benefit from occasional (as needed or requested) assistance from CPA's in the role as a CFO when desired by you. Our senior Accountants and CPA's go to the clients' site to provide a high level review and corrections to these records; the same work that a Controller would provide. We will function as your Controller when you need one, allowing your business to benefit from our training, knowledge and experience, but only when you need it.

### **What are the IRS Definitions of a Business Deduction?**

The most common questions about business deductions relate to business use of a car, home office deductions and expenses, and travel and entertainment (to include meals) expenses. The IRS defines a business deduction as an expense that is ordinary and necessary. (This is pretty hard to nail down and vague on purpose.) The deductibility is determined based on the facts and circumstances on a case by case basis. I have used the rule of thumb that if you can draw a correlation between you spending money on this good, service, or product, and that service, good, or product results in increasing your sales, which in turn can increase your profit and, thus, your TAXES; then you MAY be good to deduct it. If you can not pass my rule of thumb test, then you are probably out of luck. Remember, this is America and you can deduct everything that you want (the choice is up to you); however, the IRS may ask you to spend some time in Prison for Tax Evasion. It is all about the choices you make.

## Common Items Small Businesses Deduct

*This list is not all inclusive as each business is different. This list is to provide you with potential areas that you may have not considered yet, but should, as well as other items not listed.*

- Cell phone(s)
- Business car or truck -either mileage or all related cost of owning and operating the car (which may include the gas, insurance, maintenance and depreciation)
- Retirement Plan Contributions (for you and/or your employees)
- Office desk and office supplies (most anything Staples sells)
- Computers (new or computers you may have already if used for work)
- Insurance (Car, Worker's compensation, Health insurance, General business insurance)
- Licenses (Annual filing with Secretary of State, Professional licenses, County Business license)
- Dues-professional or club dues (Non-profit clubs such as Rotary or Kiwanis)
- Other medical costs paid for employees
- Computer software and updates
- Amounts paid to legal, accounting and consulting
- Interest on loans used to operate business
- Meals for business purpose (50%)
- Child care cost for employees or owners (special rules apply)
- Entertainment (50%) - tickets to sporting events, golf and other events that have business purpose
- Rent(s) or leases on equipment or autos
- W-2 wages and consulting (1099) paid to contractors
- Advertising
- Bank service charges
- Postage
- Lodging - hotel and travel cost
- Cost of items or inventory sold - if you sell items then you need to provide the beginning and ending inventory levels for each year
- Contributions to charity paid by company
- Improvements to facilities or expansion of operation cost
- Rule of Thumb - **needs to be "ordinary and necessary"** - can you draw a reasonable conclusion that by you spending \$\$ on this item, event or service; that this could make you more money, which would result in more income, which would result in more taxes paid to the IRS.
- Money that you spent prior to opening or starting your business
- Business related educational expenses (Ask for more details)
- Utilities (Portions may be deductible)

## **Other things that CPAs need to know that are not deductible**

- Health and disability insurance (some health plans are deductible)
- Club dues - Golf Club, Country Club, Yacht Club
- Payments to the IRS or State Dept of Revenue (Other than payroll tax deposits)
- Money that the owners loaned to the company or loans that were paid to the company
- Penalties paid

## **Car Expenses**

To take a business deduction for the use of your car, you must determine whether the use was business or personal. If the answer is personal, no deduction is allowed. Personal use includes commuting – driving from your home to your regular place of work. A deduction may be allowed if you have multiple jobs or businesses. Driving from your home to “business one” directly to “business two” is deductible. Also, you are usually allowed to deduct transportation costs for going from your home to a temporary workplace regardless of the distance.

Deductible car expenses can include the cost of 1) traveling from one workplace to another, 2) making business trips to visit customers or attend business meetings away from your regular workplace, or 3) going to a temporary workplace.

To claim the deduction, you must have adequate records such as a written travel log with complete and accurate mileage records for each business use of your car. If you are unable to produce a clear and accurate business mileage record, the IRS may have no choice but to disallow the deduction.

There are two methods for claiming business car expenses: actual expenses or the standard mileage rate (**NOT BOTH**).

### **Actual Expenses**

You can add your entire car operating expenses for the year, including gas, oil, tires, repairs, license fees, lease payments, registration fees, garage rental, insurance, and depreciation. Then deduct the percentage of the total that was for business, based on your mileage records of business and personal travel. Deductions for business parking and tolls do not have to be divided.

### **Standard Mileage Rate (Updated Annually)**

Beginning Jan. 1, 2012, the standard mileage rates for the use of a car (including van, pickups or panel trucks) are:

- 55.0 cents a mile for all business miles driven
- 23.0 cents a mile when computing deductible medical or moving expenses
- 14.0 cents a mile when providing services to a charitable organization

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS), after claiming a Section 179 deduction for that vehicle, for any vehicle used for hire, or for more than four vehicles used simultaneously. IRS Revenue Procedure 2004-64 contains additional information on these standard mileage rates.

If you use the standard mileage rate, you cannot claim your actual operating expenses, but you can claim your business parking and tolls. To use the standard mileage rates you are required to keep a written log of your locations driven annually.

## **Travel Expenses**

Travel expenses are your “ordinary and necessary” expenses while you are traveling away from home on business. The tax law requires that you show your trip away from home was primarily for business.

Keep whatever documents you can gather at the time of the trip to prove where you went, why you were there, how long you stayed, and how much you spent. If your travel includes some business and some personal aspects, be sure to keep clear records showing exactly how much is related to business. Keep the following:

### **Lodging Receipts**

These should show where you were, how long you were there, and charges. Also keep records for cleaning and laundry, telephone charges, tips and other charges not shown separately.

### **Transportation Receipts**

These include airplane, train, or bus ticket stubs, travel agency receipts, rental car, or taxi receipts, etc., all showing amounts, dates, and destinations involved.

### **Meal Receipts**

Meal expenses are deductible only if your trip is overnight or long enough that you need to stop for sleep or rest to properly perform your duties. The amount of the meal expenses must be substantiated, but instead of keeping records of the actual cost of your meal expenses, you can generally use a standard meal allowance ranging from \$46 to \$71 in 2011, depending on where and when you travel. (Go to the IRS web-site and search for 'per diem' rates, IRS Pub 1542). You can also deduct meal expenses when they are ordinary and necessary business expenses in an area less than 50 miles away.

Whether you use the standard meal allowance or actual expenses, you generally can only claim a deduction of 50 percent of the unreimbursed cost of your meals while you are traveling – even if you are dining with business associates. Taxes and tips that are part of the cost are also subject to the 50 percent limit.

## Home Expenses

Using part of your home for business is another example of something used for both business and personal purposes. You must meet specific tests before you can claim a deduction for the business use of your home. Among other things, you must show that the area you use for business is never used for personal purposes.

To figure the part of your home operating expenses that are for business use, you must figure the percentage of your home used for business. To find the business percentage, compare the size of the business part of your home to your whole home. In most cases, the home business expense will not generate a benefit in deduction to the business owner (but may). The majority of home business deductions (portions of real estate taxes, mortgage interest) are already deductible by the owner on your personal taxes.

## Independent Contractors

Have all independent contractors complete the IRS Form W-9. For all contractors that are not incorporated and that you pay \$600 or more annually, you are required to issue them an IRS Form 1099-MISC by January 31.

If the contractor does not want to give you his Federal ID number (EIN) it is likely that they do not wish to report this income. If you do not file a 1099-MISC on contractors that you pay more than \$600 and are not incorporated, you will lose the amount that you did pay them as a deduction if you are audited by the IRS. What you paid them will become income to you, and you will have to pay income taxes on this amount instead of them paying tax on this amount.

## What do you need to keep records of and for how long

You should keep records and receipts for **at least three** calendar years. If you file your income tax returns on time and do not have any fraudulent transactions in your tax returns, then the IRS can only audit up to the last three years of income tax returns before the statute of limitations runs out. It is always best to file on time to start the clock running.

Your tax preparer is required to provide you a copy of your return. They must also keep a copy of your return for four years from the due date or four years from the date they completed the return, whichever is later. The supporting schedules that CPAs attorneys and other professionals produce in performing their services for you are generally, the proprietary property of the provider; they are not yours to see. We recommend keeping supporting documents (receipts, logs, and accounting records) relating to each year that remain potentially subject to IRS review and audit. If you are unsure of what to keep, it is better to error on the side of caution and keep more than you need. Bank statements, canceled checks, business credit card statements, loan documents, cash receipts, and all employee documents should be kept for at least three years.

## **VI. IRS and other agencies Audits**

### **Representation by a CPA**

The IRS accepts most taxpayers' returns as filed. If the IRS inquired about your return or selects it for examination, it does not suggest that you are dishonest. The inquiry or examination may or may not result in more tax. Your case may be closed without change or you may receive a refund.

If you receive a notice from the IRS and you agree with the information, then take the appropriate course of action. Keep a copy of the notice and include it with the information to have your CPA prepare your income tax return. If you do not agree with the notice, contact our CPA firm and we will advise you on the best course of action to take. If you are selected for an audit do not contact the IRS; contact a partner in our Firm and we will correctly guide and assist you in preparing for the audit. If you contact the IRS yourself, you may be providing unnecessary information that may not benefit you.

The cost of representation is based on the actual hours spent representing you. This will vary for each business based on the complexity of your accounting records and the amount of activity involved. It is common for a CPA to spend at least 40 hours for the representation. Our firm will provide you a range of prices prior to beginning the engagement.

Only CPA's, Attorney's, and Enrolled Agents can represent you and your business before the IRS. The experience of your CPA is crucial to the efficiency and effectiveness of your audit.

### **Offer in Compromise, Payment Plans**

95% of the time, it is my opinion that if you owe lots of money to the IRS (more than you can pay in one year) then you should submit a request to pay the debt to them, with interest, over time (usually only a very few years). If you do make an agreement to make monthly payment, **DO NOT MISS A PAYMENT!**

You may have seen on TV, ads from companies to get your liability reduced to pennies on the dollars of what you owe. They are talking about an offer in compromise. Since the new IRS commissioner came into office in 2003, the number of OIC's that have been approved are very, very small. The application is expensive and with new legislation, you are limited on the number of times that you can make the application. Our time to file it and defend the application is expensive, and the interest and penalties will likely continue to compound. You must show the IRS that you do not have the ability to pay them to get a reduction (which could mean to sell your home, investments, cars, leverage your paychecks above what they believe you need to live, etc.), not just the fact that you don't want to pay that much. Filing an OIC is an option and it can benefit you greatly if the facts and circumstances work out correctly. We have had a few of these result in very successful outcomes for our client recently, but everyone is different. The purpose of the OIC is to show the IRS that you have no assets, limited income and that the IRS has a very limited chance of ever getting payment from you for the taxes owed to the IRS. If you have enough income to pay them a reasonable amount of money and/or have other assets that they could take from you, it is not likely that they would

approve your OIC. If your OIC is denied, you may be better off working out a payment plan with the IRS (which is based on your income, not on what money you have left over after bills to pay them).

## VII. Benefits

### Owner and Employee Benefits

You must include the fair value of fringe benefits in the W-2 of an employee, Form K-1 for a partner in a partnership (they don't get W-2s), or in a 1099 for a contractor. The fair market value (FMV) of a fringe benefit is the amount an employee would have to pay a third party in an arm's length transaction to buy or lease the benefit. Determine this amount on the basis of all the facts and circumstances.

### Cafeteria Plans

A cafeteria plan, including a flexible spending arrangement, is a written plan that allows your employees to choose between receiving cash or taxable benefits for which the law provided an exclusion from wages. If an employee chooses to receive a qualified benefit under the plan, the fact that the employee could have received cash or a taxable benefit instead, will not make the qualified benefit taxable.

Generally, a cafeteria plan does not include any plan that offers a benefit that defers pay. However, a cafeteria plan can include a qualified 401(k) plan as a benefit. Also, certain life insurance plans maintained by educational institutions can be offered as a benefit even though they defer pay.

Please contact us if you are interested in setting up a cafeteria benefits plan or need more individualized advice.

### Qualified benefits

Qualified benefits include the following benefits discussed in Section 2.

- Accident and health benefits (but not medical savings accounts or long-term care insurance)
- Adoption assistance
- Dependent care assistance
- Group-term life insurance coverage (including costs that cannot be excluded from wages).

**Benefits not allowed. A cafeteria plan cannot** include the items below (they are in almost all cases, not a taxable fringe benefit for staff or owners).

- Archer medical savings accounts (See *Accident and Health Benefits*.)
- Athletic facilities (unless required by a Doctor)
- Deminimis (minimal) benefit
- Educational assistance
- Employee discounts

- Lodging on your business premises
- Meals
- Moving expense reimbursements
- No-additional-cost services
- Transportation (commuting) benefits
- Tuition reduction
- Working condition benefits

It also cannot include scholarships or fellowships (discussed in Publication 970, Tax Benefits for Education).

**Employee.** For these plans, the following individuals are treated as employees.

- A current common-law employee (see Section 2 in Publication 15, (Circular E), for more information).
- A full-time insurance agent who is a current statutory employee.
- A leased employee who has provided services to you on a substantially full-time basis for at least a year, if the services are performed under your primary direction or control.

***Exception for S Corporation shareholders.***

Do not treat a 2% shareholder of an S Corporation as an employee of the corporation for this purpose. A 2% shareholder for this purpose is someone who directly or indirectly owns (at any time during the year), more than 2% of the corporation's stock or stock with more than 2% of the voting power.

**Plans that favor highly compensated employees.**

If your plan favors highly compensated employees as to eligibility to participate, contributions, or benefits, you must include in their wages the value of taxable benefits they could have selected. A plan you maintain under a collective bargaining agreement does not favor highly compensated employees.

A highly compensated employee for this purpose is any of the following employees.

1. An officer
2. A shareholder who owns more than 5% of the voting power or value of all classes of the employer's stock.
3. An employee who is highly compensated based on the facts and circumstances based on the facts and circumstances.
4. A spouse or dependent of a person described in (1), (2) or (3).

## **VIII. Taxes**

The most common reason that small businesses do not succeed is due to failure to file and pay employee payroll taxes and Sales and Use taxes. Ironically these are controllable tasks. The correct set up of your accounting records and monitoring system will keep you informed and in compliance. A detailed listing of the potential dates that a business could have to report or pay taxes is found on our Small Business calendar. Contact Forrestall & Co., CPA, for a copy of the current year calendar.

### **Who to prepare your tax reports and returns**

An attorney, accountant, or a Certified Public Accountant can each assist you in the preparation of your tax reports and returns. A CPA is the highest level of knowledge in accounting and taxation that is recognized as professionals by the Secretary of State. CPA's must obtain 150 hours of general college credit, including 30 hours in upper level accounting subjects. They are also required to apprentice with another CPA for at least one year, and must pass a 4 part national examination on accounting and taxation.

You will find that the price of the preparation of your return by a CPA and other non-certified accountants may not vary much. However, the level of experience, resources and certifications WILL vary much more than the price.

Our CPA firm will assist you in reducing your audit risk from the IRS when filing your tax returns by helping you to take full advantage of potential tax saving techniques while not being aggressive enough to draw attention to your business. If you do get audited, make sure that you tax preparer will represent you and that they have experience in IRS representations.

### **NEXUS (Doing business in other states)**

If your business performed business activity in another state most likely your business is subject to Nexus, multi-state taxation. If you have a business office or location in another state, if you have employees in another state, or if you have sales persons soliciting sales in another state, then it is likely that you may have a nexus issue.

Your business will not have to pay additional taxes for Nexus, but will divide the amount of state taxes for Georgia and other states in which you are doing business. If you fail to inform the appropriate state agencies, they may come back to collect back taxes along with penalties and interest. Georgia will not likely give you credit for taxes paid to these states.

Before hiring employees or performing work in another state, contact your CPA to find out if filing for Nexus is necessary.

### **Rental Property**

There are several factors that you need to consider when owning rental property. You should ensure that you have the correct business insurance. Next, you will need to decide whether you are a passive (most likely) or active owner. Then we can determine whether a separate legal entity is needed.

There is no hard and fast rule on who should own the property. This is determined by the facts and circumstances of the situation. Having the property owned by a separate entity is a good way to segregate assets in the event of a legal action. Placing the asset in the name of company will likely eliminate the ability to pay tax at capital gain rates when sold. However, this can be an effective estate planning tool for heirs.

### **1031 Exchange**

When selling property, owners have the option to exchange it for a similar property and defer the tax. This can be done essentially with any asset including land, buildings, vehicles, or livestock. This has become a very specialized area and requires close attention to detail. This is a way to defer (not eliminate) taxes as you are ‘trading’ one piece of property for another piece. To defer the taxes you must follow the rules exactly or it will not work. We strongly urge you to contact us before entering into this type of agreement.

### **What is Personal Property Tax and why do you file them?**

Personal property taxes are another tax that businesses must pay annually (due to the county where the business is physically located). They act the same as the Real Estate tax on personal residences. Each business must report all of their personal property (tangible items, furniture, computers, furniture, etc.) in a tax return. The county will then come back to you with a tax assessment of the assets reported. Like other tax returns, they are due annually and penalties and interest may apply if they are not filed timely.

### **EFTPS**

EFTPS is the Electronic Federal Tax Payments System developed by the IRS to enable taxpayers to pay their federal taxes electronically over the internet ([www.eftps.gov](http://www.eftps.gov)). It is secure and is required for many businesses depending on the amount being paid. Setup on this system is easy and this option can be very beneficial. Tax payments may be scheduled in advance and payment history may be checked at any time. It is important to note that payments must be submitted one day before the due date of the tax to allow time for the submission to clear the bank. The EFTPS program also gives you payment history for proof of timely payment for your records. The States also allow you to pay income, payroll withholding, and sales and use taxes online as well.

### **Domestic Production Deduction**

If your business produces something (i.e. construction, manufacturers, farmers) you may qualify for this deduction. For 2011, the deduction is equal to 9% of the lesser of qualified production activities income or your total taxable income. If you are in an approved industry, this is a great deduction that you don’t want to miss out on. Please contact us if you believe you qualify for this deduction and would like to learn more.

## Section 179 Depreciation

Section of 179 allows taxpayers to accelerate depreciation deductions on assets when placed in service. The limits for section 179 depreciation deduction have increased to \$250,000 for federal purposes, and the Georgia limit also has increased to \$250,000.

## Advisors CPA/Banker/Attorney/Computer Consultant

The most important step to take in operating your business is the selection of your business advisors. These should include your CPA, your banker, your computer consultant, and your attorney.

Choosing your advisors should include questions about their professional experience in your business industry, professional certifications, location of their office and convenience, the understanding of technology for your accounting system, and equally important is their prices.

With professional services, remember that you get and should get what you are paying for. There may be competitors to these advisors who are less in cost but be weary as to why. Ask for references from clients that you can contact.

Our CPA Firm, will proudly provide you prices of our services, references from several clients, individual biographies, and overview of our Firm's experiences.

## List of Publications for Small Businesses

Here is a listing of several web sites and IRS publications that will be useful to operating your small business.

### IRS Publications

<b>Pub 15</b>	<b>Circular E, Employer's Tax Guide</b>
<b>Pub 15-B</b>	<b>Employer's Tax Guide to Fringe Benefits</b>
<b>Pub 463</b>	<b>Travel, Entertainment, Gift and Car Expenses</b>
<b>Pub 533</b>	<b>Self-Employment Tax</b>
<b>Pub 535</b>	<b>Business Expenses</b>
<b>Pub 560</b>	<b>Retirement Plans for Small Business</b>
<b>Pub 583</b>	<b>Starting a Business and Keeping Records</b>
<b>Pub 587</b>	<b>Business Use of Your Home</b>
<b>Pub 1542</b>	<b>Per Diem Rates</b>

### Web Sites

Secretary of State of GA [www.sos.ga.us.gov](http://www.sos.ga.us.gov)  
IRS [www.IRS.gov](http://www.IRS.gov)  
SBA [www.sba.org](http://www.sba.org)  
Forrestall, Galeano & Li CPA LLC [www.fglcpa.com](http://www.fglcpa.com)  
Georgia Department of Labor [www.dol.state.ga.us](http://www.dol.state.ga.us)  
Georgia Department of Revenue [www.dor.ga.gov](http://www.dor.ga.gov)

## Check List for Start Up of Business

### New Business Checklist

Completed	Task	Due Date/Frequency
	Contact Forrestall & Co. CPA LLC	Now
	Choose Entity Type (Incorporate) – call CPA	Prior to other steps
	Incorporation (if applicable) – call CPA	As soon as possible
	Obtain a Federal ID Number (EIN)	Prior to opening checking account
	Open Checking Account and choose your Banker	As soon as possible after applying for Federal EIN
	File S Corp Election (if necessary)-call CPA	After incorporating, but before 75 days for starting corporation or acquiring assets
	Obtain City/County Business License	Prior to conducting business
	Obtain a Georgia Sales & Use Tax number (if applicable)-call CPA	Prior to selling your products
	Obtain a Georgia Dept of Labor and State Income Tax Withholding numbers – call CPA	Prior to first payroll period
	Order Computer, QuickBooks Pro and QuickBooks Checks – call CPA	As soon as possible
	Register Trade Name (d/b/a) (if applicable)	Prior to conducting business under a name different than your business legal name
	Obtain Business Insurance	As soon as possible
	Obtain Workman’s Compensation Insurance	As soon as possible from having 3+ employees
	Obtain I.N.S. Form I-9 and have Employees complete	When hiring employees
	Obtain Form W-4/G-4 and have Employees complete	When hiring employees
	Consult with CPA about Contractor vs. Employee Status	Prior to hiring employees or contracting with contractors (if you are unsure if they are employees or contractors)
	Contact Forrestall & Co., for QuickBooks Pro training and set up assistance	Once computer and QuickBooks Pro is set up
	Determine which services from Forrestall & Co. will best help your business immediately and in the future	Prior to entering accounting information into your accounting software

**ECONOMIC DEVELOPMENT CORPORATION**  
**QUICK REFERENCE TO ECONOMIC DEVELOPMENT LOAN PROGRAMS**

Program	Maximum Amt. Guaranteed	Structure	Use of Proceeds	Maturity	Maximum Interest Rates	Guarantee Fees	Contact
<b>504 Certified Development Company</b>	Limit on SBA portion of project is <b>\$1.0 million to \$1.3 million</b>	50%-Private Lender (1 <sup>st</sup> Lien) 30%-40%-SBA (2 <sup>nd</sup> Lien) 10%-Borrower Equity injection increases if start-up (5%) or special purpose projects (5%)	Long-term fixed asset loans; must create 1 job per <b>\$35,000</b> of SBA proceeds	Equipment-10 yrs  Land/Building- 10 yrs or 20 yrs	Based on current market rate for 5 & 10 yr. Treasury issues, plus increment above Treasury rate	Fees related to SBA portion is approx. 3% and is financed into loan  <b>Lender pays ½% guarantee fee for permanent loan portion</b>	Lorra Lee Melinda Coker Shelia Greene at the Economic Development Corp.  770-536-7839
<b>Revolving Loan Fund</b> Eligible counties: Banks, Franklin, Habersham, Hart, Rabun, Stephens, Towns or Union	<b>Minimum RLF Loan - \$15,000</b>  <b>Maximum RLF Loan - \$150,000</b>	50%-Private Lender (1 <sup>st</sup> Lien) 40%-EDC (2 <sup>nd</sup> Lien) 10%-Borrower	Fixed asset financing; must create 1 job per <b>\$15,000</b> of RLF proceeds	Equipment — 7 to 10 yrs  Land/Building — up to 15 yrs	Usually prime or prime (+) depending on terms and collateral	1 ½% origination fee  No Lender fee	Lorra Lee Melinda Coker Shelia Greene at the Economic Development Corp.  770-536-7839
<b>Intermediary Relending Program</b> Eligible counties: Banks, Dawson, Franklin, Forsyth, Habersham, Hall, Hart, Lumpkin, Rabun, Stephens, Towns, Union, White, Elbert, Fannin, Gilmer, Jackson, Madison, Oglethorpe	<b>Minimum IRP Loan – None</b>  <b>Maximum IRP Loan - \$150,000</b>	50%-Private Lender (1 <sup>st</sup> Lien) 40%-EDC (2 <sup>nd</sup> Lien) 10%-Borrower	Fixed asset financing; must create 1 job per <b>\$35,000</b> of IRP proceeds	Equipment — 7 to 10 yrs  Land/Building — up to 15 yrs	Usually prime or prime (+) depending on terms and collateral	1 ½% origination fee  No Lender fee	Lorra Lee Melinda Coker Shelia Greene at the Economic Development Corp.  770-536-7839
<b>7(a) Loan Guaranty Program</b>	<b>\$1,000,000 guaranteed portion</b>	<b>75% Guaranty</b>	Purchase of land/building, equipment, goodwill, working capital, refinancing of certain debt, etc.	Depends on ability to repay; usually M&E (not to exceed life of equip.) is <b>5-10</b> years; real estate, equipment up to <b>25</b> years; Working Capital <b>5-7</b> years	Negotiable w/ lender, loans under 7 yrs is maximum of prime (+) 2.25%; over 7 years maximum of prime (+) 2.75%	2% up to \$150,000 3% if over \$150,000-\$700,000 3.5% if over \$750,000  Lender also pays a ½% ongoing fee for the outstanding guaranteed amount	Lorra Lee Melinda Coker Shelia Greene at the Economic Development Corp.  770-536-7839  <b>EDC processing fee - \$1,000 non-refundable</b>
<b>LowDoc</b> two page SBA loan application <b>36</b> hour turn a round	<b>\$150,000</b>	<b>85% Guaranty</b>	Same as 7(a)	Same as 7(a)	Same as 7(a)	Same as 7(a)	EDC  <b>EDC processing fee- \$250 non-refundable</b>
<b>Pre-Qual Loan Program</b> Intermediary prepares application and helps secure financing	<b>\$250,000</b> (total loan amount)	Same as 7 (a)	Same as 7 (a)	Same as 7 (a)	Same as 7 (a)	Same as 7 (a)	Small Business Development Center  770-5361-5681
<b>CAPLines</b> *Short-term/RLCs *Seasonal *Contract Builders *Standard Asset Based  <b>Small Asset Based</b>	<b>\$1.0 million</b> (total loan amount except small asset based)  <b>\$200,000 Small Asset Based maximum loan</b>	Same as 7 (a)	Finance seasonal working capital, construction costs, advances against existing inv. & rec., consolidation of short-term debts	Up to 5 years	Same as 7 (a) except the Standard-Based no fee restriction, but fee disclosure to SBA required	Same as 7 (a)	U.S. Small Business Administration  404-331-0100 or <a href="http://www.sba.gov">www.sba.gov</a>

**ECONOMIC DEVELOPMENT CORPORATION**  
**QUICK REFERENCE TO ECONOMIC DEVELOPMENT LOAN PROGRAMS/CONTINUED**

Program	Maximum Amount Guaranteed	Structure	Use of Proceeds	Maturity	Maximum Interest Rates	Guarantee Fees	Contact
<b>Micro-Loan</b> Eligible Counties: Fannin, Lumpkin, White, Franklin, Hart, Stephens, Rabun, Towns, Union, Habersham, Banks, Elbert	\$5,000		Various Uses				Melanie Partin or Grace Fricks  1-877-434-6609
<b>International Trade Loan Program</b>	1.25 million	can be structured under 504 or 7(a) loan program	Combination of working capital and fixed-asset financing; improvements in U.S. for goods or service; may not be used to repay existing debt	Up to 25 years	Same as 7(a)	Same as 7(a)	U.S. Small Business Administration  404-331-0100 or <a href="http://www.sba.gov">www.sba.gov</a>
<b>Export Working Capital Program</b> Effort of SBA and EX-IM Bank; 1 page application fast turnaround, may apply for prequalification letter	\$750,000 (may be combined with International Trade Loan)	Same as 7(a)	Short-term working capital loans for exporters; acquire inventory, support stand by letters of credit, finance foreign receivables	12 months with two options to renew, for total term of 36 months	No Cap	Same as 7(a)	Ray Gibeau at U.S. Export Assistance Center in Atlanta 404-657-1970
<b>USDA B&amp;I Guaranty Loan Program</b>	\$25 million	90% on loans up to \$10 million	Working Capital, M & E, buildings and real estate, certain types of debt refinancing	Working Capital 7 years  M&E – 15 years  Real Estate 30 years	Lender sets rate  USDA charges a 1% to 2% guaranty fee	USDA charges a 1% to 2% guaranty fee	USDA Rural Development 706-546-2154  <a href="http://www.usda.gov/aarc/">www.usda.gov/aarc/</a>

<u>Agency</u>	<u>Contact</u>	<u>Services</u>
<b>Economic Development Corporation</b> 460 S. Enota Drive Gainesville, Georgia 30501	<b>Lorra Lee</b> <b>Melinda Coker</b>  <b>770-536-7839</b>	-Process, Close and Service SBA 504 loans -Process, Close and Service EDC Revolving Loan Fund loans -Process, Close and Service EDC Intermediary Relending Program loans -Package SBA 7(a) Guaranteed Loans for Banks
<b>University of Georgia Business Outreach Services</b> 604 Washington St., NW, Suite B-2 Gainesville, Georgia 30501	<b>Ron Simmons</b> <b>770-531-5681</b>	<b>-Business Plans</b> -Business Training and Consulting -Market Research and Consulting -Package Loan Proposals -Package SBA LowDoc Loan Proposals -MicoLoan Program Applications
<b>U.S. Small Business Administration</b> 233 Peachtree Road, N.E. Suite 1900 Atlanta, Georgia 30303	<b>404-331-0100</b>	-SBA's State Office for Georgia. All SBA loans are approved by this office. Any liquidations occur through this office. Contact this office for other specialty programs such as the Surety Bond Program and 8(a) Minority Business Certification
<b>U.S. Export Assistance Center</b> 285 Peachtree Center Ave, NE Suite 200 Atlanta, Georgia 30303	<b>Ray Gibeau</b> <b>Export Finance Officer</b> <b>404-657-1970</b>	-The Center is a great resource for businesses looking to export. -Can provide working capital guarantees to banks on single order or revolving export loans